

## **Form ADV Part 2A**

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**This brochure provides information about the qualifications and business practices of American Capital MTGE Management, LLC (“MTGE Manager”). If you have any questions about the contents of this brochure, please contact us at (301) 968-9220 or IR@mtge.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about MTGE Manager also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Registration with the SEC as an investment adviser does not imply that MTGE Manager or any of its officers or employees possess a particular level of skill or training.**

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#### **ADVISORY BUSINESS [Item 4]**

American Capital MTGE Management, LLC (“MTGE Manager”) is a Delaware limited liability company, which is wholly owned by American Capital Mortgage Management, LLC, which is, in turn, wholly owned by American Capital Asset Management, LLC. American Capital Asset Management, LLC is a wholly owned portfolio company of American Capital, Ltd., a closed-end, nondiversified investment company, which has filed an election to be regulated as a business development company under the Investment Company Act of 1940 (“1940 Act”). American Capital, Ltd. is one of the largest business development companies in the industry and is traded on The NASDAQ Global Select Market under the symbol “ACAS.”

American Capital, Ltd. formed MTGE Manager in 2011 to manage American Capital Mortgage Investment Corp. (“MTGE”), a public real estate investment trust (“REIT”).

MTGE Manager provides investment management, administrative and other advisory services to MTGE, a publicly-traded mortgage REIT, which commenced operations in August 2011 and invests in a leveraged portfolio of agency mortgage investments, non-agency mortgage investments and other mortgage-related investments. As part of its management duties, MTGE Manager may employ hedging techniques designed to reduce the risks of adverse movements in interest rates and credit spreads with respect to MTGE’s investments. MTGE is traded on The NASDAQ Global Select Market under the symbol “MTGE.”

American Capital AGNC Management, LLC (“AGNC Manager”), a Delaware limited liability company and a sister company of MTGE Manager, is also wholly owned by American Capital Mortgage Management, LLC. AGNC Manager is separately registered with the Securities and Exchange Commission (“SEC”) as an investment adviser. AGNC Manager is the external investment manager of American Capital Agency Corp. (“AGNC”), a publicly-traded mortgage REIT established in 2008, which invests primarily on a leveraged basis in residential mortgage backed securities and collateralized mortgage obligations for which the principal and interest payments are guaranteed by a U.S. Government agency or a U.S. Government-sponsored entity. AGNC is traded on The NASDAQ Global Select Market under the symbol “AGNC.”

MTGE Manager manages the investments of MTGE according to its investment management agreement with MTGE and consistent with MTGE’s investment objective and strategy. MTGE Manager has discretionary trading authorization. MTGE’s investments are subject to certain restrictions and limitations set forth in MTGE’s prospectus, such as prohibitions on investing in certain types of assets, prohibitions on investments that would cause MTGE to fail to qualify as a REIT for federal income tax purposes, and prohibitions on investments that would cause MTGE to be regulated as an investment company under the 1940 Act, among others.

Investors and prospective investors in MTGE should refer to the prospectus and related agreements and other governing documents for MTGE for complete information. Prior

performance is not necessarily indicative of future results, and there is no assurance that MTGE's investment objectives will be achieved.

MTGE Manager does not participate in any wrap fee programs.

As of December 31, 2012, MTGE Manager managed \$7,696,140,000 of assets of MTGE on a discretionary basis.

## **FEES AND COMPENSATION [Item 5]**

Pursuant to the terms of its management agreement with MTGE, MTGE Manager earns a base management fee equal to 1/12 of 1.5 % of MTGE's month-end stockholders' equity, adjusted to exclude the effect of any unrealized gains or losses included in either retained earnings or other comprehensive income (loss), each as computed in accordance with U.S. generally accepted accounting principles ("GAAP"). The management fee is payable monthly in arrears. MTGE Manager was formed by American Capital, Ltd., and the terms of its management agreement with MTGE, including the fees payable under it, were not negotiated on an arm's-length basis, and its terms may not be as favorable to MTGE as if it was negotiated with an unaffiliated party.

Under the terms of the management agreement, MTGE Manager is entitled to a termination fee in the event of the non-renewal of the management agreement with MTGE without cause or a material breach of the agreement by MTGE equal to three times the average annual management fee earned by MTGE Manager during the prior 24-month period (or such shorter period if the management agreement has been in effect for less than 24 months) immediately preceding the most recently completed month prior to the effective date of termination.

Additionally, MTGE Manager is entitled to reimbursement from MTGE for all of its operating expenses, including fees, costs and expenses directly related to the purchase and sale of its investments, taxes, fees of auditors and counsel, insurance, litigation expenses, custodial expenses and any extraordinary expenses but excluding personnel costs. Pursuant to the terms of the management agreement, there are no limits on such expense reimbursements. MTGE's prospectus contains complete information on the expenses payable by MTGE.

MTGE Manager has entered into an administrative services agreement with American Capital, Ltd. to provide MTGE Manager with additional investment advisory and administrative services, as well as access to its employees, infrastructure, business relationships, management expertise and capital raising capabilities. American Capital, Ltd. charges MTGE Manager a fee based on allocation of costs for such services.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT [Item 6]**

MTGE Manager does not charge performance-based fees.

AGNC and MTGE make similar investments with respect to agency securities generally. Such investments are generally not limited in supply or otherwise of scarce opportunity. However, in the event that AGNC and MTGE do make overlapping investments, the parent company of AGNC Manager and MTGE Manager has adopted an investment allocation policy specific to agency whole pool and non-whole pool securities to govern such situations. To mitigate potential conflicts of interest, investment opportunities are allocated between AGNC and MTGE in accordance with the investment allocation policy and consistent with fiduciary duties, equitable allocation, compliance with the 1940 Act and corresponding investment mandates.

MTGE Manager maintains an investment committee which follows consistent processes for investment decisions. The investment committee is comprised of senior officers and seeks to facilitate the detection and avoidance of potential conflicts of interest throughout the investment process as well as during the time a portfolio investment is held.

The value of some of MTGE's investments may not be readily determinable. The fair value of such investments is measured quarterly, in accordance with guidance set forth in FASB Accounting Standards Codification, or ASC, Topic 820, Fair Value Measurements and Disclosures. The fair value at which MTGE's assets may be recorded may not be an indication of their realizable value. Ultimate realization of the value of an asset depends to a great extent on economic and other conditions that are beyond the control of MTGE Manager, MTGE or its Board. Further, fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. If MTGE were to liquidate a particular asset, the realized value may be more than or less than the amount at which such asset is valued. Accordingly, the value of MTGE's common stock could be adversely affected by the determinations regarding the fair value of its investments, whether in the applicable period or in the future. Additionally, such valuations may fluctuate over short periods of time.

In certain cases, MTGE Manager's determination of the fair value of MTGE's investments will include inputs provided by third-party dealers and pricing services. Valuations of certain investments in which MTGE may invest are often difficult to obtain or unreliable. In general, dealers and pricing services heavily disclaim their valuations. Dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of a security, valuations of the same security can vary substantially from one dealer or pricing service to another. Therefore, MTGE's results of operations for a given period could be adversely affected if the determinations regarding the fair market

value of these investments are materially different than the values that MTGE ultimately realizes upon their disposal.

**TYPES OF CLIENTS [Item 7]**

MTGE Manager provides investment advice to MTGE, a publicly traded REIT. MTGE does not have suitability or net worth qualifications.



## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **[Item 8]**

The following is a summary of the investment strategies and methods of analysis employed by MTGE Manager with respect to its management of MTGE and the material risks applicable to an investment in MTGE. Specific descriptions of such strategies, methods and risks are included in MTGE's prospectus and should be reviewed carefully.

#### Methods of Analysis and Investment Strategies

MTGE Manager selectively constructs and actively manages a diversified mortgage investment portfolio for MTGE comprised of asset classes that, when properly financed and hedged, are designed to produce attractive risk adjusted returns across a variety of market conditions and economic cycles. The strategy focuses on asset selection and the relative value of various sectors within the mortgage market. MTGE Manager believes that the residential mortgage market will undergo dramatic changes in the coming years as the role of U.S. Government-sponsored entities ("GSEs"), such as Fannie Mae and Freddie Mac, is diminished, which it expects will create attractive investment opportunities for investors. MTGE may invest in mortgage-related investments, that MTGE Manager defines as agency mortgage investments, non-agency mortgage investments and other mortgage-related investments.

MTGE earns income primarily from investing in residential mortgage pass-through securities and collateralized mortgage obligations on a leveraged basis. These investments consist of securities for which the principal and interest payments are guaranteed by GSEs, such as the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, or by a U.S. Government agency, such as the Government National Mortgage Association, or Ginnie Mae. MTGE Manager seeks to preserve net asset value while generating attractive risk-adjusted returns for distribution to stockholders through regular quarterly dividends from net interest income, which is the spread between the interest income earned on interest earning assets and the interest costs of borrowings and hedging activities, and net realized gains and losses on investments and other supplemental hedging activities. Mortgage-related investments may be funded primarily through short-term borrowings structured as repurchase agreements.

#### Material Risks

MTGE may not be able to execute successfully its investment, financing and hedging strategies as described in its prospectus, which could result in a loss of some or all of its investments. The results of its operations will depend on many factors, including, without limitation, the availability of attractively priced mortgage-related investments, the level and volatility of interest rates, readily accessible financing for its proposed investment portfolios, conditions in the financial markets and the economy in general.

MTGE may experience significant short-term gains or losses as a result of its active portfolio management strategies. MTGE's strategy involves significant leverage, which increases the risk that it may incur substantial losses. Because of MTGE's significant leverage, it may incur substantial losses if the value of its securities decreases or its borrowing costs increase.

Residential mortgage loans are secured by residential property and those that are not guaranteed by a U.S. Government agency or GSE are subject to risks of delinquency, foreclosure and loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including: acts of God; acts of war or terrorism; adverse changes in national and local economic and market conditions; changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of complying with such laws and regulations, fiscal policies and ordinances; costs of remediation and liabilities associated with environmental conditions such as mold; and the potential for uninsured or under-insured property losses.

Commercial mortgage loans are generally secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, among other things: tenant mix; success of tenant businesses; property management decisions; property location and condition; competition from comparable types of properties; changes in laws that increase operating expense or limit rents that may be charged; any need to address environmental contamination at the property; the occurrence of any uninsured casualty at the property; changes in national, regional or local economic conditions or specific industry segments; declines in regional or local real estate values; declines in regional or local rental or occupancy rates; increases in interest rates; real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God, acts of war or terrorism, social unrest and civil disturbances.

In the event of any default on a mortgage loan held directly by MTGE, MTGE will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on its cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process that could have a substantial negative effect on MTGE's anticipated return on the foreclosed mortgage loan.

Residential mortgage backed securities (“RMBS”) evidence interests in, or are secured by, pools of residential mortgage loans. Commercial mortgage backed securities (“CMBS”) evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the mortgage-backed securities in which MTGE may invest may be subject to all of the risks of the respective underlying mortgage loans. MTGE may be adversely affected by risks affecting borrowers or the asset or property types in which its investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions. Subordinated tranches of RMBS or CMBS are subordinate in right of payment to more senior securities. Investments in such subordinated tranches of RMBS or CMBS may be illiquid, may have a higher risk of default and may not produce current returns.

Any credit ratings assigned to MTGE’s investments will be subject to ongoing evaluations and revisions and there can be no assurance that those ratings will not be downgraded.

MTGE Manager’s due diligence of potential investments may not reveal all of the potential liabilities associated with such investments and may not reveal other weaknesses in such investments, which could lead to investment losses.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between these agencies and the U.S. Government, may adversely affect the agency mortgage portion of MTGE’s business. If Fannie Mae or Freddie Mac were eliminated, or their structures were to change radically (i.e., limitation or removal of the guarantee obligation), or their market share reduced because of required price increases or lower limits on the loans they can guarantee, MTGE could be unable to acquire additional agency mortgage investments and MTGE’s existing agency mortgage investments could be materially and adversely impacted.

**DISCIPLINARY INFORMATION [Item 9]**

There are no legal or disciplinary events involving MTGE Manager or its management persons required to be disclosed pursuant to this Item 9.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS [Item 10]**

Neither MTGE Manager nor any of its management persons is registered as a broker-dealer or a registered representative of a broker-dealer or is affiliated with any broker-dealer, bank or other financial services firm.

Neither MTGE Manager nor any of its management persons is registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

As described in Item 4, MTGE Manager is indirectly wholly-owned by American Capital, Ltd. MTGE Manager provides investment advice to MTGE. As described in Item 5, American Capital, Ltd. has entered into a service agreement with MTGE Manager to provide it with additional asset management service support. Through these agreements, American Capital, Ltd. provides investment advisory and oversight services to MTGE Manager, as well as access to its employees, infrastructure, business relationships, management expertise and capital raising capabilities. Certain of the employees of the parent company of MTGE Manager provide services to both MTGE Manager and AGNC Manager. Thus, such personnel may have conflicts in allocating their time and services between AGNC and MTGE and may spend substantially all of their business time on one or the other.

As described in Item 6, MTGE Manager occasionally evaluates potential investment opportunities in agency securities, which are eligible investments for both MTGE and AGNC. Thus, the parent company of MTGE Manager and AGNC Manager has adopted a policy to ensure that such investment opportunities will, to the extent practicable, be allocated between MTGE and AGNC on a basis that over a period of time is fair and equitable to each fund, taking into account all relevant facts and circumstances.

MTGE Manager permits its principals, officers, employees and supervised persons (“Covered Persons”) to engage in personal securities transactions, subject to compliance with MTGE Manager’s Code of Ethics, as described in Item 11.

MTGE Manager does not recommend or select other third-party investment advisers for its clients. Except as described herein, MTGE Manager does not have other business relationships with other advisers that create a material conflict of interest.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING [Item 11]**

MTGE Manager has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Advisers Act, which includes formal personal trading policies and procedures generally requiring, among other things, all Covered Persons and certain family members and other related persons to file with MTGE Manager’s Chief Compliance Officer certain reports concerning their personal securities holdings and transactions and, subject to certain exceptions, to obtain pre-clearance for purchasing and selling “covered securities.” All Covered Persons are also required to report any violations of the Code to MTGE Manager’s Chief Compliance Officer.

The Code provides that no Covered Person may, in breach of any fiduciary duty he or she owes to MTGE, engage directly or indirectly in any business investment in a manner detrimental to MTGE or use confidential information gained by reason of his or her employment by or affiliation with MTGE Manager in a manner detrimental to MTGE.

MTGE Manager and the Covered Persons owe a fiduciary duty of care, loyalty, honesty and good faith to MTGE. The Code further obligates each Covered Person to:

- Observe all laws and regulations
- Avoid conflicts of interest
- Maintain accurate and complete company records, and
- Protect confidential information

Any client or prospective client or investor or prospective investor in MTGE may obtain a copy of the Code upon request.

The Code includes policies and procedures concerning “inside information” that are designed to prevent the misuse of material, non-public information (“Inside Information”). Covered Persons are required to comply with the Code, including these policies, and may be asked to certify their compliance on a periodic basis. The Code prohibits MTGE Manager and Covered Persons from trading for MTGE or themselves, or recommending trading, in securities of MTGE while in possession of Inside Information about MTGE, and from disclosing such information to any person not entitled to receive it.

MTGE Manager permits its employees and other related persons to engage in personal securities transactions, subject to compliance with its Code. No such person shall purchase or sell, directly or indirectly, any covered security in which he or she has, or by reason of such transaction acquires, any direct or indirect beneficial ownership and that he or she knows or should have known at the time of such purchase or sale is being considered for purchase or sale by MTGE Manager or is being purchased or sold by MTGE Manager.

From time to time, MTGE Manager may cause MTGE to engage in “cross trades” via the purchase of a portfolio investment from or sale of a portfolio investment to AGNC, provided that the sale or purchase is consistent with MTGE Manager’s fiduciary obligations and otherwise complies with applicable law and MTGE Manager’s policies.

## **BROKERAGE PRACTICES [Item 12]**

Trades in agency securities are typically made through broker-dealers that, acting as principal, charge markups, markdowns or other charges in connection with such trades. These broker-dealers do not charge commissions. Thus, it is obtaining or selling securities at the best price under the circumstances that defines MTGE Manager's objective in seeking best execution. MTGE Manager seeks best execution for MTGE's securities transactions by identifying appropriate broker-dealers through which to effect such transactions. In seeking best execution, MTGE Manager evaluates, on an ongoing basis, the prices that are available in the broker-dealer markets. MTGE Manager generally considers the following factors, among others, in selecting and approving broker-dealers that may compete for MTGE Manager's business: (i) quality of execution—accurate and timely execution, clearance and cooperation in resolving errors and disputes; (ii) reputation; (iii) reliability, both historically and as an ongoing matter; (iv) willingness to execute difficult transactions; (v) access to underwritten offerings of fixed income securities; (vi) nature of the security and availability of market makers; (vii) desired timing of transactions and size of trades; (viii) confidentiality of trading activity, particularly in less liquid sectors; (ix) market intelligence and knowledge regarding trading activity; (x) ability to settle trades; (xi) a salesperson's ability to harness his or her firm's resources to the benefit of MTGE; and (xii) research capabilities.

MTGE Manager may also use electronic trading systems to execute trades. These systems charge transaction fees that are included in the price of the security.

MTGE Manager does not participate in "soft dollar" arrangements under which MTGE Manager "pays up" (in the form of higher markups, markdowns or commissions charged MTGE fixed income trades) for research in connection with fixed income trades. MTGE Manager may, however, receive research (including proprietary research) from various broker-dealers through which it may execute trades where MTGE Manager's receipt of the research does not result in additional cost to MTGE. Research so obtained results in an economic benefit to MTGE Manager, and MTGE Manager does not account for the value of this research. MTGE Manager generally uses the research to assist it in its investment decision-making process, but this research may not be used for MTGE. MTGE Manager may have an incentive to select or recommend a broker-dealer based on MTGE Manager's interest in receiving the research or other products or services, rather than on MTGE's interest in receiving most favorable execution.

MTGE Manager does not participate in directed brokerage arrangements.



### **REVIEW OF ACCOUNTS [Item 13]**

MTGE Manager monitors each investment of MTGE on an ongoing basis. In addition, MTGE Manager conducts periodic reviews in order to assess trends that may impact an individual investment's ability to generate cash, profitability, asset values, financing needs, potential liability and ability to service any debts.

MTGE Manager provides MTGE's Board of Directors with quarterly reports, which typically include, among other information, holdings and transaction information, performance analysis, brokerage allocation, accounting data, portfolio reviews and distribution information. MTGE Manager also provides additional information or reports as requested by the board. MTGE's shareholders may obtain annual and quarterly reports as filed with the SEC and attend an annual shareholder meeting.

**CLIENT REFERRALS AND OTHER COMPENSATION [Item 14]**

MTGE Manager does not provide compensation for client referrals to any person who is not its supervised person.

**CUSTODY [Item 15]**

It is MTGE Manager's general policy to not have physical custody of any client assets.

To the extent that MTGE Manager might otherwise be deemed to have custody, MTGE Manager will operate on reliance upon the reporting requirement exemption in the Custody Rule with respect to MTGE by causing MTGE to distribute audited financial statements annually, prepared in accordance with GAAP, to shareholders no later than 120 days after the end of each fiscal year.

**INVESTMENT DISCRETION [Item 16]**

Subject to the investment objectives, policies and restrictions of MTGE as set forth in its prospectus, MTGE Manager has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold by MTGE, including the selection of, and commissions paid to, broker-dealers, if applicable.

## **VOTING CLIENT SECURITIES [Item 17]**

MTGE typically does not hold public securities, and, consequently, MTGE Manager does not vote proxies on behalf of MTGE. To the extent MTGE holds voting securities, MTGE Manager has been delegated the authority to vote proxies regarding MTGE portfolio securities. To the extent that MTGE Manager does vote proxies, they will be voted in MTGE's best interests and according to MTGE Manager's policy. A copy of the proxy voting policy and/or record of how proxies, if any, have been voted are available to clients upon request.

**FINANCIAL INFORMATION [Item 18]**

MTGE Manager does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of its most recent fiscal year. MTGE Manager is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has MTGE Manager been the subject of a bankruptcy petition at any time during the past ten years.